

# **REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON KNYSNA MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the accompanying financial statements of the Knysna Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010)(DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Knysna Municipality as at 30 June 2011 and its financial performance and its cash flows for the year then ended, in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

## **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

## **Significant uncertainties**

9. Enquiries of management and the municipality's legal representatives confirmed that the municipality is a defendant in actions instituted for damages and claims totalling R6 558 504. The outcome of these legal claims cannot be determined, but based on best estimate and judgement by management, these amounts have been disclosed as a contingent liability in note 52 to the financial statements.

## **Restatement of corresponding figures**

10. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of an error discovered during 30 June 2011 in the financial statements of Knysna Municipality at, and for the year ended, 30 June 2011.

## **Additional matter**

I draw attention to the matter below. My opinion is not modified in respect of this matter:

## **Unaudited supplementary schedules**

11. The supplementary information set out on pages 77 to 78, does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

12. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages 41 to 96 and material non-compliance with laws and regulations applicable to the Knysna Municipality.

## **Predetermined objectives**

### **Compliance with laws and regulation**

13. The accounting officer of the municipality did not by 25 January 2011 assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan as required by section 72(1)(a)(ii) of the MFMA.

### **Reliability of information**

14. The reported performance information was deficient in respect of the following criteria:

- Validity: The reported performance did not occur and does not pertain to the entity.
- Accuracy: The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

15. For the selected programmes, 21% of the reported indicators were not valid, accurate and complete based on the source information or evidence provided.

### **Compliance with laws and regulations**

#### **Annual financial statements, performance and annual report**

16. The accounting officer did not submit the annual financial statements of the municipality for auditing, within two months after the end of the financial year as required by section 126(1)(a) of the MFMA.

### **Expenditure management**

17. The accounting officer did not take reasonable steps to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

### **Procurement and contract management**

18. Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state as per the requirements of Municipal SCM regulation 13(c).
19. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) & (c).

## **Asset Management**

20. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register) as required by section 63(2)(c) of the Municipal Finance Management Act.

## **INTERNAL CONTROL**

21. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

## **Leadership**

22. The accounting officer and his delegated officials did not exercise adequate oversight responsibility with regards to the compliance with laws and regulations applicable to performance reporting.
23. The accounting officer did not ensure that the adequate controls are in place with regards to the monitoring of predetermined objectives to ensure valid, accurate and complete predetermined objectives are reported.
24. The accounting officer and his delegated officials did not exercise adequate oversight responsibility with regards to compliance with laws and regulations to detect and prevent unauthorised, irregular and fruitless and wasteful expenditure.

## **Financial Management**

25. Management did not take adequate action to address risks relating to the achievement of complete and accurate performance reporting. Management did not adequately monitor and review reported performance information.

Cape Town

1 December 2011



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